

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA

CannaVest Corporation, a Nevada corporation,

Plaintiff,

v.

Kannaway, LLC, a California limited liability company; General Hemp, LLC, a California limited liability company, HDDC Holdings, LLC, a Delaware limited liability company and DOES 1-20,

Defendant.

Civil No. 14cv2160-CAB (BLM)

ORDER DENYING MOTION TO DISMISS [Doc. No. 14]

On December 4, 2014, Plaintiff filed a First Amended Complaint (“FAC”). [Doc. No. 12.] On January 8, 2014, Defendants filed a motion to dismiss the first, second and fifth claims of Plaintiff’s FAC. [Doc. No. 14.] On January 22, 2015, Plaintiff filed an opposition to the motion. [Doc. No. 15.] On January 29, 2015, Defendants filed a reply to the opposition. [Doc. No. 17.] On January 30, 2015, the Court took the motion under submission. [Doc. No. 18.] For the reasons set forth below, the motion to dismiss is

DENIED.

I. ALLEGATIONS OF THE FAC

Plaintiff manufactures and sells a hemp-based line of personal care products under the brand name CANNABIS BEAUTY® – a mark it owns and which the United States

1 Patent and Trademark Office (“USPTO”) has registered (Reg. No. 4615445). FAC ¶¶ 1,
2 17. CannaVest has continuously sold this line of products and promoted it in
3 advertising throughout the United States since September 2013. FAC ¶ 16. As a result,
4 these marks have acquired “secondary meaning” – consumers associate the mark with a
5 particular source of personal care products. *Id.*

6 In approximately January or February of 2014, well after CannaVest had
7 commenced selling its CANNABIS BEAUTY® line of products, defendant Kannaway,
8 LLC (“Kannaway”), a multi-level marketing organization, solicited CannaVest for a
9 license of the CANNABIS BEAUTY® mark. FAC ¶ 18. Later, however, Kannaway
10 refused to sign the license agreement. *Id.*

11 During the licensing discussions, CannaVest discovered that Kannaway’s sister
12 company, defendant HDDC Holdings, LLC (“HDDC”), had filed a trademark application
13 with the USPTO for the mark CANNABIS BEAUTY DEFINED. FAC ¶ 19. CannaVest
14 objected to HDDC on the ground that CannaVest was already using the mark
15 CANNABIS BEAUTY in commerce. *Id.* In response, on March 12, 2014, HDDC
16 assigned all rights, title and interest it had in the application to CannaVest pursuant to a
17 written assignment agreement which was promptly recorded with the USPTO. *Id.*
18 Exhibit B.

19 Despite the assignment, Kannaway started to sell personal care products bearing
20 the name CANNABIS BEAUTY DEFINED. FAC ¶ 22. Due to the fact that Kannaway,
21 HDDC and General Hemp share officers, Kannaway had actual notice of CannaVest’s
22 superior rights in the marks at issue and adopted identical marks with knowledge of
23 CannaVest’s superior rights in the marks and with the intent to confuse the public as to
24 the source of the goods and to trade on CannaVest’s good will and reputation. FAC ¶
25 28. When CannaVest demanded that Kannaway cease using the mark, Kannaway
26 claimed for the first time that HDDC had granted an exclusive license (the “Purported
27 Licensing Agreement”) to Kannaway and its parent company, General Hemp. FAC ¶ 25;
28 Exhibit D.

1 CannaVest has filed this action asserting claims for trademark infringement and
 2 unfair competition against Kannaway and seeking an injunction precluding Kannaway
 3 from using the mark (first, second and third causes of action). CannaVest also seeks a
 4 declaration against all the defendants that the Purported Licensing Agreement is
 5 unenforceable (fourth cause of action). Finally, in the event the court finds the Purported
 6 Licensing Agreement is enforceable against CannaVest, then Cannavest asserts a claim
 7 for fraud against HDDC (fifth cause of action).

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9 II. DISCUSSION

10 A. Legal Standard

11 Federal Rule of Civil Procedure 12(b)(6) permits a party to raise by motion the
 12 defense that the complaint “fail[s] to state a claim upon which relief can be
 13 granted”—generally referred to as a motion to dismiss. The Court evaluates whether a
 14 complaint states a cognizable legal theory and sufficient facts in light of Federal Rule of
 15 Civil Procedure 8(a)(2), which requires a “short and plain statement of the claim
 16 showing that the pleader is entitled to relief.” Although Rule 8 “does not require
 17 ‘detailed factual allegations,’ . . . it [does] demand . . . more than an unadorned, the
 18 defendant-unlawfully-harmed-me accusation.” *Ashcroft v. Iqbal*, 556 U.S. 662, 678
 19 (2009) (quoting *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 555 (2007)).

20 “To survive a motion to dismiss, a complaint must contain sufficient factual
 21 matter, accepted as true, to ‘state a claim to relief that is plausible on its face.’” *Id.*
 22 (quoting *Twombly*, 550 U.S. at 570); *see also* Fed. R. Civ. P. 12(b)(6). A claim is
 23 facially plausible when the collective facts pled “allow . . . the court to draw the
 24 reasonable inference that the defendant is liable for the misconduct alleged.” *Id.* There
 25 must be “more than a sheer possibility that a defendant has acted unlawfully.” *Id.* Facts
 26 “merely consistent with’ a defendant’s liability” fall short of a plausible entitlement to
 27 relief. *Id.* (quoting *Twombly*, 550 U.S. at 557). The Court need not accept as true “legal
 28 conclusions” contained in the complaint, *id.*, or other “allegations that are merely

conclusory, unwarranted deductions of fact, or unreasonable inferences," *Daniels-Hall v. Nat'l Educ. Ass'n*, 629 F.3d 992, 998 (9th Cir. 2010).

3 B. Analysis.

4 1. Trademark Infringement.

5 Defendant argues that Plaintiff fails to state a claim for trademark infringement
 6 because Plaintiff is solely alleging ownership of the trademark by way of assignment,
 7 that Plaintiff has not "proven the elements of a valid trademark assignment,' and that
 8 Plaintiff failed to provide the details surrounding the HDDC Assignment. [Doc. No. 14-1
 9 at 9-10.] However, Plaintiff is not solely alleging ownership of the trademark by way of
 10 assignment. Rather, Plaintiff alleges that it owns the CANNABIS BEAUTY® mark
 11 because it has sold products under that name since September 2013 and has registered
 12 that mark with the USPTO. FAC ¶¶ 1, 16, 17. In addition, Plaintiff has attached a copy
 13 of the written assignment, has described the circumstances under which it came about,
 14 and has alleged that the assignment was recorded with the USPTO. FAC ¶¶ 19-21,
 15 Exhibit B. Thus, Plaintiff has sufficiently pled a valid assignment under 15 U.S.C. §
 16 1060.

17 A trademark is "any word, name, symbol, or device, or any combination
 18 thereof ... used by a person ... to identify and distinguish his or her goods." 15 U.S.C. §
 19 1127. "To prevail on a claim of trademark infringement under the Lanham Act, 15
 20 U.S.C. § 1114, a party 'must prove: (1) that it has a protectable ownership interest in the
 21 mark; and (2) that the defendant's use of the mark is likely to cause consumer confusion.'
 22 " *Network Automation, Inc. v. Adv. Sys. Concepts, Inc.*, 638 F.3d 1137, 1144 (9th
 23 Cir.2011) (*quoting Dep't of Parks & Recreation v. Bazaar Del Mundo, Inc.*, 448 F.3d
 24 1118, 1124 (9th Cir.2006)). Here, Plaintiff has alleged that it owns the CANNABIS
 25 BEAUTY® mark and that Kannaway is selling a competing product using a confusingly
 26 similar mark. FAC ¶¶ 16-17, 22. These allegations are sufficient to state a claim for
 27 trademark infringement under the Lanham Act.

1 2. Unfair Competition.

2 The Ninth Circuit has “consistently held that state common law claims of unfair
3 competition and actions pursuant to California Business and Professions Code § 17200
4 are ‘substantially congruent’ to claims made under the Lanham Act.” *Cleary v. News*
5 *Corp.*, 30 F.3d 1255, 1262–63 (9th Cir.1994). As with federal unfair competition claims
6 under the Lanham Act, the “ultimate test” of state law unfair competition is the
7 likelihood of public confusion. *Id.* (citations omitted). Thus, given that Plaintiff
8 sufficiently states a claim under the Lanham Act, Plaintiff also states a claim for state
9 law unfair competition in violation of California Business and Professions Code §
10 17200.

11 3. Fraudulent Concealment.

12 “[T]he elements of an action for fraud and deceit based on concealment are: (1)
13 the defendant must have concealed or suppressed a material fact, (2) the defendant must
14 have been under a duty to disclose the fact to the plaintiff, (3) the defendant must have
15 intentionally concealed or suppressed the fact with the intent to defraud the plaintiff, (4)
16 the plaintiff must have been unaware of the fact and would not have acted as he did if he
17 had known of the concealed or suppressed fact, and (5) as a result of the concealment or
18 suppression of the fact, the plaintiff must have sustained damage.’ ” *Hahn v. Mirda*, 147
19 Cal.App.4th 740, 748 (2007). Here, Plaintiff has sufficiently alleged a claim for
20 concealment. Plaintiff alleges that HDDC entered into an agreement to assign its rights,
21 if any, in the CANNABIS BEAUTY DEFINED trademark application to Plaintiff and
22 thus had a duty to disclose the exclusive, 5–year trademark license that HDDC
23 supposedly granted to the other Defendants prior to the assignment to Plaintiff. FAC ¶¶
24 56-62. Plaintiff further alleges that CannaVest reasonably relied on HDDC’s deception.
25 FAC ¶ 62. Finally, Plaintiff alleges that, as a result of HDDC’s concealment of the
26 Purported Licensing Agreement, CannaVest has been damaged in excess of \$500,000.
27 FAC ¶ 63. Therefore, Plaintiff has sufficiently stated a claim for concealment.

1 III.
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3 CONCLUSION

4 For the reasons set forth above, Defendants' motion to dismiss the first, second
5 and fifth causes of action is **DENIED**. All Defendants shall answer the FAC by
February 20, 2015.

6 **IT IS SO ORDERED.**

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8 DATED: February 5, 2015

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11 CATHY ANN BENCIVENGO
12 United States District Judge
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